



**Presentation by Iowa Secretary of State Paul D. Pate**

**To the Joint Transportation, Infrastructure**

**And Capitals Appropriations Subcommittee**

**February 25, 2015**



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Chairman McCoy, Chairman Huseman, Members of the Joint Transportation, Infrastructure, and Capitals Appropriations Subcommittee:

Thank you for this opportunity to present information about the work and services provided by my office and our team of 24 public service professionals. It has been 16 years since I was in a similar position as I am today. Much has changed and yet much remains the same.

Since the beginning of Iowa's statehood in 1846 the Iowa Secretary of State has provided trusted and necessary services documenting and certifying the actions of Iowans and their elected officials. This remains at the center of our attention today just as it was during my previous administration. Yet during this same time span we have seen the impact of changing technologies resulting in improved productivity.

During my previous administration we annually processed hundreds of thousands of filings done by 40 professionals. Now we are processing more filings with a staff that is 37% smaller than before. How has this been accomplished? It was through the implementation of new technologies and training. However, we are now at the point where the technology and systems implemented a decade or

more ago are reaching the end of their useful life. We must begin the process to thoughtfully update many of these systems.

The plan and budget we present today begins the process of moving forward to: 1) deliver the service levels Iowans expect; 2) encourage participation in our electoral process; and 3) secure the integrity of all our processes.

The Office of Iowa Secretary of State is composed of two divisions: Business Services and Elections. Of these the largest is Business Services.

### **Business Services Division**

The Business Services Division is responsible for the general administration of procedures relating to filings allowed or permitted by Iowa law for corporations, limited liability companies, limited partnerships, limited liability partnerships, cooperative associations, uniform commercial code, mechanic's liens, notaries, transient merchants, travel agencies, trade and service marks, joint exercise of governmental powers agreements and miscellaneous documents.

Attachment (1) Filing Volumes Figure 1, Revenue Generated FY 2014 Figure 2

There are 11 different types of filings processed by the Business Services Division that generated \$5,221,259 in revenue for FY 2014. All fees are deposited in the general fund. The only fees the Secretary of State's office retains are from Notaries, Athletic Agents, Mechanic's Liens, Travel Agents and reimbursable fees from Data Extracts and Information Services annually totaling less than \$290,000.

Expenses to operate the Business Services Division for 10 staff, office supplies, printing, postage, communications and outside services not including Information Technology support is \$757,000.

Annual filings processed in calendar year 2014 totaled 300,000. The volumes of filings are generally trending up while processing resources have declined. In 1998 there were 9,688 newly formed entities. This number grew to 19,000 by 2014.

Through the use of data processing systems that were at one time cutting edge we were able to keep up with customer expectations. As filing volumes continue to increase the time to process mail-in, electronic filings and walk-in filings has increased. As a means to keep up with volumes overtime is regularly authorized to keep processing within the guidelines stated for response time in Iowa Code and Rules.

During my prior administration a change was made requiring biennial reports instead of annual reports for corporations. This efficiency move has stood the test of time and Iowa continues to be one of a handful of states that do not require annual reports for corporations. This type of efficiency move is limited in the Secretary of State's office without additional policy changes through legislation and rules. For the record I am not proposing any policy changes at this time.

(Attachment 1 figure 3)

On the Business Services Facts in Figure 3 you can see a comparison of Iowa to the national average of states with regard to filing fees. Iowa charges lower fees for nonprofit corporations compared to for-profit corporations unlike most other states. Similarly Iowa fees for corporate filings are generally lower than the national average charged by other states. With these figures you can draw the conclusion that Iowa is open for business and is cost competitive compared to other states.

### **Elections Division**

The Secretary of State serves as the State Election commissioner and the State Registrar of Voters. In this capacity my office oversees the administration of all elections in the state and houses the statewide voter registration system.

#### **Administration of Elections:**

The Division on Elections and Voter Registration is responsible to oversee 2 statewide elections and more than 200 local special elections every year; provide training to precinct poll workers, county election administrators, city clerks, and school business officials; accept state nomination papers; prepare candidate guides; ensure that all polling places are accessible according to the requirements of the Americans for Disabilities Act; ensure that all voting machines meet federal standards and state laws; administer absentee ballots for overseas military personnel; and administer the federal Help America Vote Act (HAVA), requirements. The division also provides a web-based election night reporting

system for the general and primary elections, as well as a smart phone application for voters to locate their polling place and track their absentee ballot, find their county election office, and complete a voter registration application. As a result of HAVA, the state election commissioner is required to submit numerous reports to the federal Election Administration Commission.

#### **ELECTIONS QUICK FACTS:**

2,142,572 registered voters in 2014 General Election  
Growth of 269,482 (14%) since 1998 election

1,142,311 total votes cast in 2014 General Election  
Highest number votes cast in a Gubernatorial Election.  
Increase of 185,896 voters (19%) from  
The 1998 Gubernatorial Election.

Absentee Ballots  
469,185 (41%) absentee ballots cast in 2014 General Election  
This represents a 194% increase in the number of ballots cast by absentee over the  
last 3 Gubernatorial Elections, since 2002.

688,057 (43%) absentee ballots cast in 2012 Presidential Election  
This represents a 246% increase in the number of ballots cast by absentee over the  
last 3 Presidential Elections, since 2000.

Number of Elections Conducted  
Odd years: 947 City and 351 School Elections  
Even years: General and Primary Elections (1682 precincts)  
Every Year: 150 - 200 Special Elections

Number of Registered Voters  
November 4, 2014 – 2,142,572  
December 1, 1998 – 1,873,090  
14.4% increase

### Administration of Voter Registration:

The Division on Elections and Voter Registration is also charged with oversight and maintenance of the statewide voter registration system, also known as I-VOTERS. Maintaining and updating the files is a daily task, including daily receipt of voter registration applications from the Iowa Department of Transportation (IDOT), daily receipt of felon files from county clerks of court, annual cross checks with other states, annual match against death records, annual comparisons against the US Post Office National Change of Address program, and biennial “no-activity” procedures. Each of these procedures requires programming time, verification, and scrutiny to maintain the integrity of 2.1 million files, with each file including voting history, address changes, name changes, date of birth, social security numbers. Additionally the I-Voters system encompasses a comprehensive statewide address library; capacity for reports and labels; election management; absentee ballot tracking; precinct poll book management; and district and precinct assignment. This is a complex and interactive system that administers the entirety of elections and voter registration.

Finally, the division also provides a number of list request services to other entities. In 2014 we processed more than 200 voter registration list requests. We pull a jury list annually, and provide felon lists to the Department of Natural Resources.



### FY 2016 Budget

The State of Iowa contracts with a vendor, Arikkan Resources, to maintain and update the statewide voter registration system. The annual maintenance contract for this service is \$236,000. Additionally, we pay annual software licensing fees of \$170,000. On top of this are incidental expenses to fix issues, enhance systems operations, law changes and provide technical solutions.

The Secretary of State's office has an additional contract with Arikkan to enable Election Night Reporting. In 2014 the cost for the contract was approximately \$234,000. This expense is necessary to ensure that Iowa will be able to accurately report election night totals in a timely manner.

County end users of the voter registration system pay annual maintenance fees of 13.5 cents per registered voter. This amounts to a total of about \$280,000. That funding level is not sufficient to pay the minimal annual expense of \$635,000 to maintain and operate the I-VOTERS system. That explains the FY 16 increased General Fund request of \$365,000. In short, this appropriation would pay for on-going expenses from the General Fund, rather than the now-depleted one-time funding that was available through HAVA.

### **Technology Reinvestment Fund - Phase I Explanation**

I recommend upgrading and/or replacement of the Business Services processing systems and elections systems that are reaching the end of their useful life cycles. This is due to changes in technology. We are working with the Chief Information Officer (OCIO) to review and identify solutions to the changes in core systems that

are necessary to avoid a shutdown of our systems and allow modernization of business processes and filings. Similarly we are reaching end of life scenarios for election systems. All of these are part of the Phase I Technology Reinvestment Fund requests recommended for funding in the Governor's Budget.

I have requested \$450,000 in funding from the Technology Reinvestment Fund (TRF) for Phase I of a project to update and improve the Secretary of State's technology infrastructure for Business Services and Elections Division applications.

Phase I funds will be used for evaluation of core systems that will result in updating and upgrading capabilities of aging voter and business services registry systems to meet current and future expectations for open and transparent record retention and applications.

Specific systems addressed include:

- business services registry systems for Uniform Commercial Code filings (UCC);
- corporate filings and reports;
- signature verification systems;
- poll book applications (2/3 of counties currently involved);
- collection of data by SOS from existing data sources including IDOT and county treasurers;
- Moving to cloud based data storage applications and disaster recovery redundancy.

### The Challenge:

Some Business Services systems were written in VB6 programming language which is a language no longer used by Microsoft. Current office program examples using VB6 language include: UCC application, Cash Register and Correspondence. To put this in perspective there have been 4 versions of Windows produced since the UCC System was written in 2001. Another way to think about it is – How many cell phones have you had in the last 15 years? The fore mentioned applications need to be rewritten and moved to .Net language. Once these systems stop working they will be extremely difficult to fix. We run into expensive and time consuming issues when Microsoft patches break our older systems.

Applications written in VB6 will not be guaranteed to run on future operating systems. Windows 10 is scheduled to come out later this year and our systems will not be guaranteed to run on Windows 10. This shortens our window for support even further.

### Overview of software and hardware

There are more than 50 commercial off the shelf software products and 60 CUSTOM applications used to run our operations.

Hardware is located in 2 data centers, site 1 is at the SOS Lucas Building office and site 2 is at the Camp Dodge Bunker a.k.a.- Joint Forces Head Quarters (JFHQ) in Johnston. There are 57 servers at Lucas Building and JFHQ. These are core systems for all Iowa Secretary of State operations. The vast majority of these will

reach end of life starting next year. Some components are already end of life such as the brocades (4 X \$10,000 each) with replacement costs of \$40,000.

Hardware at site 1 is running near 100% capacity. Operations are now being shifted to Site 2 which has limited capacity to process new applications. Current investments in hardware at site 1 and 2 exceed \$700,000.

#### Operating System Back-Up

**Redundancy** – Business Services is not fully redundant – it is only hosted at site 1. Business Services cannot run at site 2 because the HP replication software stopped working a couple of years ago. A budgetary decision was made to not fund the required fix. Failure of the Business Services systems could result in parts or all of our systems temporarily going offline for several days.

The voter registration system has natural redundancy built into it with half the counties hosted at each site. If there is a failure at either site we would lose capacity resulting in slower performance.

There is no redundancy of IT staff. Currently we have a small IT staff comprised of 3 with distinct responsibilities spread amongst the group.

#### Identifying the solution

The solution is to thoughtfully engage technical resources to evaluate the core systems and management of these systems starting now. The question is do we build, buy or lease the next generation of hardware and software solutions?

Phase 1 resources will be used to evaluate databases and software applications commencing July 1<sup>st</sup>. We expect this process to take several months. This will be followed by a solutions team in consultation with OCIO that will identify the next steps and costs for modernizing applications and hardware systems.

Other aspects impacted by include:

- electronic imaging;
- security;
- training;
- support;
- data availability and integrity;
- voter registration and;
- automation of tasks.

The expectation is that once the road map is developed we will know what phase 2 and beyond will cost and the timeline associated with implementation.

There is no question that we must do something because the results of doing nothing mean we will be unable to deliver the promise of services expected and required by law.

Once updated, we can increase the number of filings done on line and add communication enhancements through email communications with on line clients and voters. This can improve efficiencies of existing staff and reduce processing

time, mailing expenses, waiting periods and overtime. Systems can also be updated to add features that customers and business services expect.

The essence of this office is the delivery of services that are the fabric of our democracy and the foundation of commerce. Providing trusted and necessary services to Iowans that help them start businesses and safe guard their votes is our focus.

I will do all in my power to provide the best service possible with the resources provided; encourage participation in the electoral process; and ensure the integrity of our systems.

The requests for funding are necessary and important if we are to continue providing customer service that is efficient and effectively using taxpayer resources in the way they are intended.

Thank you



## ***Iowa Secretary of State Business Services***

### ***Quick Facts***

FIGURE 1

<b>Filing Volume – Based on calendar year</b>	<b>2014</b>
Corporate Documents (including biennial reports):	134,380
Uniform Commercial Code Documents:	138,630
Mechanic's Notice and Lien Registry:	4,928
Notary applications/renewals	19,985
Miscellaneous Registries including: Athlete Agents, Trademarks, Travel Agents, 28E Agreements, Credit Service Organizations, Transient Merchants and Incorporated Cities	<u>1,978</u>
<b>Total</b>	<b>299,901</b>

FIGURE 2

### **Revenue Generated by source FY 2014**

Business Services Information Services Fees*	\$56,310
Notary Information Fees*	35,855
Athletic Agent Fees*	11,000
Corporation Fees	1,344,933
Mechanic's Liens*	52,935
Notary Fees	611,690
Biennial Report Fees	2,166,095
Uniform Commercial Code (UCC) Fees	795,334
Original Notice Fees	9,755
Travel Agent Fees*	6,315
Miscellaneous Registry Fees*	3,885
Reimbursable Business Services Data Extracts*	<u>\$ 123,268</u>
<b>Total</b>	<b>\$5,221,259</b>

\*Fees retained by Secretary of State's Office

FIGURE 3

<b>Fee Comparison Iowa to National State Average</b>	<b>Iowa</b>	<b>National Avg.</b>
Articles of Incorporation	\$50	\$125
Articles of Incorporation – Nonprofit	20	85
Certificates of Organization	50	125
Annual Report (For Profits)	\$45	\$100



## ***Iowa Secretary of State***

### ***IT Systems Overview***

#### **Datacenters and Networking Systems**

Site 1        Lucas State Office Building 1<sup>st</sup> Floor, Des Moines

Hardware: Servers; Routers; Switches; and Security appliances to support all Business Services Systems, I-Voters Site one and Internal

Site 2        Joint Forces Head Quarters (JFHQ), Johnston

Hardware: Servers; Routers; Switches; and Security appliances to support all Business Services Systems, I-Voters Site two and Internal

Total value of Hardware and appliances with value greater than \$5,000 at Site 1 and 2 = \$718,000

#### **Number of Electronic Records Stored**

3.5 million Business Filings

(Additional microfilm and Kardex records from the early 1900s to 1990 are not electronically scanned)

2.1 million Voter Registration Files